

# Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name <b>Monroe County Employees' Retirement System</b>	County <b>Monroe</b>
Audit Date <b>12/31/05</b>	Opinion Date <b>3/8/06</b>	Date Accountant Report Submitted to State: <b>4/27/06</b>	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

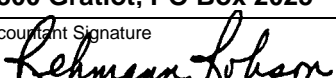
We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☒ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ Yes ☒ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

**We have enclosed the following:**

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.			✓
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name) <b>Rehmann Robson</b>			
Street Address <b>5800 Gratiot, PO Box 2025</b>		City <b>Saginaw</b>	State <b>MI</b>
Accountant Signature 		ZIP <b>48605</b>	
		Date <b>4/27/06</b>	

**MONROE COUNTY  
EMPLOYEES' RETIREMENT  
SYSTEM**

**Financial Statements**

**For The Years Ended  
December 31, 2005 and 2004**



**REHMANN ROBSON**

*Certified Public Accountants*

# MONROE COUNTY EMPLOYEES' RETIREMENT SYSTEM

## TABLE OF CONTENTS

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	<u>PAGE</u>
<b>INDEPENDENT AUDITORS' REPORT .....</b>	<b>1</b>
<b>FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004</b>	
Statements of Plan Net Assets .....	2
Statements of Changes in Plan Net Assets.....	3
Notes to Financial Statements.....	4-11
<b>REQUIRED SUPPLEMENTARY INFORMATION</b>	
Schedule of Funding Progress .....	12
Schedule of Employer Contributions .....	12

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**REHMANN ROBSON**

*Certified Public Accountants*

A member of **THE REHMANN GROUP**

 an independent member of  
**BAKER TILLY**  
INTERNATIONAL

## **INDEPENDENT AUDITORS' REPORT**

March 8, 2006

To the Board of Trustees  
Monroe County Employees' Retirement System  
Monroe, Michigan

We have audited the accompanying statements of plan net assets of the ***Monroe County Employees' Retirement System*** (the "System") as of December 31, 2005 and 2004, and the related statements of changes in plan net assets for the years then ended. These financial statements are the responsibility of the System's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 1, the financial statements present only the Employees' Retirement System pension trust fund and do not purport to, and do not present fairly the financial position and the changes in financial position of Monroe County as of and for the year ended December 31, 2005 and 2004, in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the System's net assets held in trust for benefits at December 31, 2005 and 2004, and changes therein for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The required supplemental information in the table of contents is not a required part of the financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

# **FINANCIAL STATEMENTS**

# MONROE COUNTY EMPLOYEES' RETIREMENT SYSTEM

## Statements of Plan Net Assets

December 31, 2005 and 2004

	<u>2005</u>	<u>2004</u>
<b>Assets</b>		
Investments, at fair value:		
U.S. treasuries	\$ 13,492,879	\$ 11,271,621
U.S. agencies	19,816,093	16,731,738
Foreign government bonds	5,425,814	8,948,539
Corporate bonds	24,271,721	25,219,170
Bond mutual fund	1,008,562	1,034,949
Domestic equities	57,236,570	68,337,731
International equities	9,337,421	4,802,946
American depository receipts	25,817,420	11,458,427
Money market	6,251,335	6,946,570
Total investments	<u>162,657,815</u>	<u>154,751,691</u>
Contributions receivable	188,609	152,335
Accounts receivable	48,124	1,968
Accrued interest and dividends	<u>783,115</u>	<u>916,273</u>
 Total assets	 <u>163,677,663</u>	 <u>155,822,267</u>
 <b>Liabilities</b>		
Accounts payable / accrued expenses	242,600	133,300
Foreign currency forward contracts payable	<u>142,944</u>	<u>-</u>
 Total liabilities	 <u>385,544</u>	 <u>133,300</u>
 <b>Net assets held in trust for pension benefits</b> <b>(a schedule of funding progress is</b> <b>presented on Page 12)</b>	   <u><u>\$ 163,292,119</u></u>	   <u><u>\$ 155,688,967</u></u>

The accompanying notes are an integral part of these financial statements.

# MONROE COUNTY EMPLOYEES' RETIREMENT SYSTEM

## Statements of Changes in Plan Net Assets For the Years Ended December 31, 2005 and 2004

	<u>2005</u>	<u>2004</u>
<b>Additions</b>		
Investment income:		
<i>From investing activities:</i>		
Net appreciation in		
fair value of investments	\$ 8,243,059	\$ 8,156,718
Interest and dividends	5,121,804	4,506,279
Total investment gain	13,364,863	12,662,997
Investment management fees	(958,657)	(901,632)
Net gain from investing activities	12,406,206	11,761,365
<i>From securities lending activities:</i>		
Gross earnings	973,290	337,702
Borrower rebates	(884,915)	(282,223)
Securities lending fees	(35,340)	(22,129)
Net income from securities lending activities	53,035	33,350
Total net investment gain	12,459,241	11,794,715
Contributions:		
Employer	2,034,222	1,411,037
Participants:		
Regular	312,868	295,645
Time purchase	16,279	14,641
Total contributions	2,363,369	1,721,323
Total additions	14,822,610	13,516,038
<b>Deductions</b>		
Participant benefits	6,084,154	5,276,676
Participant refunds	835,724	591,245
Administrative expenses	299,580	516,584
Total deductions	7,219,458	6,384,505
Net additions to net assets held in trust for benefits	7,603,152	7,131,533
Net assets held in trust for benefits, beginning of year, as restated	155,688,967	148,557,434
<b>Net assets held in trust for benefits, end of year</b>	<b><u>\$ 163,292,119</u></b>	<b><u>\$ 155,688,967</u></b>

The accompanying notes are an integral part of these financial statements.

# MONROE COUNTY EMPLOYEES' RETIREMENT SYSTEM

## Notes To Financial Statements

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### 1. PLAN DESCRIPTION

The Monroe County Employees' Retirement System (the "System") is a single-employer defined benefit contributory pension plan administered by the Monroe County Employees' Retirement System Board of Trustees (the "Board"). The System primarily provides pension, disability and death benefits, covering substantially all full-time employees of Monroe County and its component units, including:

- Monroe County Library System
- Monroe County Road Commission
- Monroe County Drain Commissioner
- Monroe County Agency
- Monroe County Community Mental Health Authority

The System was adopted by Monroe County pursuant to Michigan Compiled Laws, Section 46.12a. Benefit provisions are established by and may be amended by the Board as permitted by County Ordinances. The System is reported as a pension trust fund in the County's financial statements.

System membership consisted of the following at December 31, 2004 (the date of the latest actuarial valuation):

Retirees and beneficiaries currently receiving benefits	382
Terminated employees entitled to but not yet receiving benefits	123
Active participants	950

Central Dispatch supervisors and Sheriff Department employees (consisting of deputies and command, jail and corrections officers) are required to contribute 3.0% of the first \$7,800 in earnings and 5.0% of earnings thereafter to the System. Road Commission employees are required to contribute 3.1% of their annual earnings. All other County employees, along with employees of the Library System, Drain Commissioner, County Agency and Community Mental Health Authority, are not required to contribute.

The employer contributes such additional amounts, as necessary based on an actuarial determination, to provide assets sufficient to pay for member benefits. Employer contributions for the year ended December 31, 2005 totaled \$2,034,222 (including \$150,935 from the County for Central Dispatch employees and \$537,855 from the Road Commission).

Employer contributions for the year ended December 31, 2004 totaled \$1,411,037 (including \$132,130 from the County for Central Dispatch employees and \$321,520 from the Road Commission).



# MONROE COUNTY EMPLOYEES' RETIREMENT SYSTEM

## Notes To Financial Statements

### 2. SIGNIFICANT ACCOUNTING POLICIES

**Basis of Accounting** - The System's financial statements are prepared on the accrual basis of accounting. Member contributions are recognized in the period in which they are due. Employer contributions are recognized when due and the employer has made a formal commitment to provide them. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

**Valuation of Investments and Income Recognition** - The System's investments are stated at fair value which is determined as follows: (a) short-term investments are reported at cost, which approximates fair value; (b) securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates; (c) investments that do not have established market values are reported at estimated fair value; and (d) cash deposits are reported at carrying amounts which reasonably approximates fair value.

**Administration** - Administrative costs are paid through the System's investment earnings.

**Reclassifications** - Certain amounts presented in the prior year data have been reclassified in order to be consistent with the current year's presentation.

### 3. INVESTMENTS AND SECURITY LENDING

The System's investments are primarily held in a bank-administered trust fund. Following is a summary of the System's investments as of December 31:

	<u>2005</u>	<u>2004</u>
Investments at fair value, as determined by quoted market price:		
U.S. treasuries	\$ 13,492,879	\$ 11,271,621
U.S. agencies:		
Not on securities loan	7,585,486	7,233,629
On securities loan	12,230,607	9,498,109
Foreign government bonds	5,425,814	8,948,539
Corporate bonds:		
Not on securities loan	24,183,150	22,407,077
On securities loan	88,571	2,812,093
Bond mutual fund	1,008,562	1,034,949
Domestic equities:		
Not on securities loan	37,126,569	58,211,682
On securities loan	20,110,001	10,126,049
International equities	9,337,421	4,802,946
American depository receipts	25,817,420	11,458,427
Money market	6,251,335	6,946,570
<b>Total investments</b>	<b><u>\$ 162,657,815</u></b>	<b><u>\$ 154,751,691</u></b>

# MONROE COUNTY EMPLOYEES' RETIREMENT SYSTEM

## Notes To Financial Statements

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The Michigan Public Employees Retirement Systems' Investment Act, Public Act 314 of 1965, as amended, authorizes the System to invest in domestic and foreign stocks, government securities, corporate securities, mortgages, real estate and various other investment instruments, subject to certain limitations.

*Credit Risk.* Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The System's investment policy emphasizes appropriate risk/return parameters and compliance with Public Act 314, and gives discretionary authority to its investment managers as opposed to establishing specific credit rating benchmarks.

As of December 31, 2005, the System's investments in debt securities were rated by Standard & Poor's as follows:

<u>Rating</u>	<u>U.S. agencies</u>	<u>Foreign government bonds</u>	<u>Corporate bonds</u>
AAA	\$ 18,388,430	\$ 5,218,623	\$ 2,264,598
AA	-	207,191	85,602
AA-	1,427,663	-	1,726,049
A+	-	-	8,356,944
A	-	-	5,772,144
A-	-	-	2,665,842
BBB+	-	-	2,051,732
BBB	-	-	1,348,810
	<u><u>\$ 19,816,093</u></u>	<u><u>\$ 5,425,814</u></u>	<u><u>\$ 24,271,721</u></u>

United States treasury securities are explicitly guaranteed by the U.S. government and not considered to have credit risk. The System's investments in bond mutual and money market funds are not rated.

*Custodial Credit Risk.* For investments, custodial credit risk is the risk that, in the event of the failure of the counterparty to a transaction, the System will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The System's investment policy requires that securities be held in trust by a third-party institution in the System's name or its nominee custodian's name or in bearer form.

# MONROE COUNTY EMPLOYEES' RETIREMENT SYSTEM

## Notes To Financial Statements

Although uninsured and unregistered, the System's investments are not exposed to custodial credit risk since the securities are held by the counterparty's trust department or agent in the System's name. Short-term investments in money market funds and open-end mutual funds are not exposed to custodial credit risk because their existence is not evidenced by securities that exist in physical or book form.

*Concentration of Credit Risk.* Concentration of credit risk is the risk of loss attributed to the magnitude of the System's investment in a single issuer. The System's investment policy requires that no manager will hold more than 5% of its portion of the total fund in any single company and no more than 5% may be held in any single common stock. At December 31, 2005 the System's investment portfolio was not concentrated.

*Interest Rate Risk.* Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The System's investment policy does not discuss the maximum maturity for any single fixed income security or the weighted average portfolio maturity.

As of December 31, 2005, maturities of the System's debt securities were as follows:

Investment Maturities (fair value by years)					
	Fair Value	Less Than 1	1-5	6-10	More Than 10
U.S. treasuries	\$ 13,492,879	\$ 2,821,286	\$ 4,671,005	\$ 6,000,588	\$ -
U.S. agencies	19,816,093	3,709,400	7,515,699	6,102,269	2,488,725
Foreign governments	5,425,814	1,035,065	2,614,362	1,776,387	-
Corporate bonds	24,271,721	3,353,854	12,527,915	7,948,637	441,315
	<u>\$ 63,006,507</u>	<u>\$ 10,919,605</u>	<u>\$ 27,328,981</u>	<u>\$ 21,827,881</u>	<u>\$ 2,930,040</u>

Of the above balances, \$2,358,273 of corporate securities were callable.

# MONROE COUNTY EMPLOYEES' RETIREMENT SYSTEM

## Notes To Financial Statements

*Foreign Currency Risk.* Foreign currency risk is the risk that significant fluctuations in exchange rates may adversely affect the fair value of an investment. The System's exposure to foreign currency risk is summarized as follows:

<u>Investment / Country</u>	<u>Currency</u>	<u>Fair Value (USD)</u>
<b>Foreign government bonds</b>		
Australia	Australian dollar	\$ 1,171,457
United Kingdom	British pound	433,320
Canada	Canadian dollar	1,761,939
Germany	European euro	1,233,137
New Zealand	New Zealand dollar	212,817
		613,144
		<u>5,425,814</u>
<b>International equities</b>		
Canada	Canadian dollar	2,856,126
Cayman Islands	Cayman Islands dollar	1,333,100
Bermuda	Bermudian dollar	1,308,684
Netherlands	European euro	589,205
Portugal	European euro	506,268
Germany	European euro	481,003
Spain	European euro	424,042
Luxembourg	European euro	283,001
United Kingdom	British pound	277,206
Japan	Japanese yen	266,143
Switzerland	Swiss franc	262,614
Sweden	Swedish krona	239,239
France	European euro	234,274
Israel	Israeli new shekel	155,405
Brazil	Brazilian real	121,111
		<u>9,337,421</u>
<b>Total</b>		<u><b>\$ 14,763,235</b></u>

In addition, as part of a foreign currency overlay plan in conjunction with the foreign government bonds, the System has entered into certain forward contracts (derivatives) to reduce overall portfolio volatility caused by foreign currency risk.

# MONROE COUNTY EMPLOYEES' RETIREMENT SYSTEM

## Notes To Financial Statements

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Following is a summary of these forward contracts, for which a liability in the amount of \$142,994 as of December 31, 2005, representing the fair value of those contracts, has been reported in the accompanying statements of plan net assets:

<u>Investment / Currency</u>	<u>Maturity Date</u>	<u>Receivable (Payable) [in U.S. dollars ]</u>
Australian dollars payable	01/27/06	\$ (1,160,903)
European euros payable	01/27/06	(724,111)
European euros payable	02/17/06	(489,642)
Japanese yen receivable	02/16/06	2,780,057
Japanese yen receivable	02/17/06	479,369
New Zealand dollars payable	01/27/06	(376,393)
United States dollars payable	02/16/06	(2,970,000)
United States dollars receivable	01/27/06	<u>2,318,679</u>
<b>Net contracts receivable (payable)</b>		<b><u><u>\$ (142,944)</u></u></b>

*Securities Lending.* A contract approved by the System's Board of Directors, permits the System to lend its securities to broker-dealers and other entities (borrowers) for collateral that will be returned for the same securities in the future. The System's custodial bank manages the securities lending program and receives securities or irrevocable bank letters of credit as collateral. The collateral securities cannot be pledged or sold by the System unless the borrower defaults. Collateral securities and letters of credit are initially pledged at 102 percent of the market value of the securities lent, and may not fall below 100 percent during the term of the loan. There are no restrictions on the amount of securities that can be loaned.

Securities on loan at year-end are classified in the preceding schedule according to the category for the collateral received on the securities lent. At year end, the System has no credit risk exposure to borrowers because the amounts the System owes the borrowers exceed the amounts the borrowers owe the System. The contract with the System's custodian requires it to indemnify the System if the borrowers fail to return the securities (and if the collateral is inadequate to replace the securities lent) or fail to pay the System for income distributions by the securities' issuers while the securities are on loan.

# MONROE COUNTY EMPLOYEES' RETIREMENT SYSTEM

## Notes To Financial Statements

### 4. ANNUAL REQUIRED CONTRIBUTION

The annual pension cost and net pension obligation for the year ended December 31 were as follows:

	<u>2005</u>	<u>2004</u>
Annual required contribution/ pension cost	\$ 2,034,222	\$ 1,411,037
Contribution made	<u>2,034,222</u>	<u>1,411,037</u>
Increase (decrease) in net pension obligation	-	-
Net pension asset, beginning of year	<u>-</u>	<u>-</u>
<b>Net pension asset, end of year</b>	<b><u>\$ -</u></b>	<b><u>\$ -</u></b>

The annual required contribution for 2005 was determined as part of an actuarial valuation of the System as of December 31, 2003 using the entry age normal cost method and is designed to accumulate sufficient assets to pay benefits when due. Normal cost is funded on a current basis. Unfunded actuarial accrued liabilities are being amortized as a level percent of payroll over a period of 21 years. Significant actuarial assumptions used include: (a) a rate of return on investments of 7.0% per year compounded annually; (b) projected salary increases of 4.0% per year compounded annually, attributable to inflation; (c) additional projected salary increases ranging from 1.0% to 8.0% per year, depending on age and service, attributable to seniority/merit; and (d) the assumption that pension benefits will not increase after retirement.

The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility in the fair value of investments over a five-year period. Liabilities created by plan, assumption or method changes are amortized as a level percentage of payroll over a 14-year closed period. Liabilities created by plan experience and all other liabilities or over-funding are amortized as a level percentage of payroll over a 9-year open period.

### Three-Year Trend Information

<u>Year Ended</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
12/31/03	\$ 191,979	100%	\$ -
12/31/04	1,411,037	100%	-
12/31/05	2,034,222	100%	-

GASB Statement 25 required supplementary information is presented after the notes to the financial statements section of this report.

# **MONROE COUNTY EMPLOYEES' RETIREMENT SYSTEM**

## **Notes To Financial Statements**

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### **5.     RESTATEMENT**

Beginning net assets as of January 1, 2004, were increased by \$152,334 to properly accrue the December 2003 employer contributions.

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# **REQUIRED SUPPLEMENTARY INFORMATION**



# MONROE COUNTY EMPLOYEES' RETIREMENT SYSTEM

## Required Supplementary Information

### SCHEDULE OF FUNDING PROGRESS

	(1)	(2)	(3)	(4)	(5)	(6)
Actuarial Valuation Date December 31,	Actuarial Value of Assets	Actuarial Accrued Liability (AAL) Entry Age	Unfunded AAL (Overfunded) (UAAL) (2-1)	Funded Ratio (1/2)	Covered Payroll	UAAL as a % of Covered Payroll (3/5)
1995	\$ 83,546,195	\$ 73,933,400	\$ (9,612,795)	113.0%	\$ 26,408,333	-36.4%
1996	93,061,504	78,450,435	(14,611,069)	118.6%	26,643,235	-54.8%
1997	105,788,939	87,098,801	(18,690,138)	121.5%	28,814,126	-64.9%
1998	117,699,465	91,136,434	(26,563,031)	129.1%	29,309,641	-90.6%
1999	132,836,927	97,650,685	(35,186,242)	136.0%	31,064,894	-113.3%
2000	143,765,352	105,824,598	(37,940,754)	135.9%	32,749,688	-115.9%
2001	150,304,504	116,359,159	(33,945,345)	129.2%	35,250,392	-96.3%
2002	148,404,995	125,652,447	(22,752,548)	118.1%	35,895,185	-63.4%
2003	162,683,115	139,141,015	(23,542,100)	116.9%	37,862,618	-62.2%
2004	162,725,639	150,510,011	(12,215,628)	108.1%	38,712,508	-31.6%

### SCHEDULE OF EMPLOYER CONTRIBUTIONS

Year Ended December 31,	Annual Required Contribution	Annual Actual Contribution	Percentage Contributed
1996	\$ 1,715,166	\$ 1,715,166	100.00%
1997	1,619,271	1,619,271	100.00%
1998	1,110,338	1,110,338	100.00%
1999	579,687	579,687	100.00%
2000	197,395	197,395	100.00%
2001	133,907	133,907	100.00%
2002	155,524	155,524	100.00%
2003	191,979	191,979	100.00%
2004	1,411,037	1,411,037	100.00%
2005	2,034,222	2,034,222	100.00%